

Klondex Mines Ltd.
Interim Consolidated Financial Statements
(Unaudited)
September 30, 2008

Klondex Mines Ltd.**Interim Consolidated Financial Statements (Unaudited)**

September 30, 2008

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Klondex Mines Ltd.**Interim Consolidated Balance Sheets**

	September 30, 2008 (Unaudited)	December 31, 2007
Assets		
Current		
Cash and cash equivalents (note 3)	\$ 1,150,105	\$ 4,239,422
Marketable securities (note 4)	503	466
Prepaid expenses	34,404	24,553
Accounts receivable	14,981	47,609
Due from related parties (note 13)	-	21,562
	1,199,993	4,333,612
Rent deposit (note 5)	16,375	16,375
Property and equipment (note 6)	35,872	41,991
Mineral properties and related deferred expenses (note 7)	20,522,078	15,769,182
Reclamation bonds (note 8)	204,975	204,975
	\$ 21,979,293	\$ 20,366,135
Liabilities		
Current		
Accounts payable and accruals	\$ 554,156	\$ 543,777
Due to related parties (note 13)	39,106	-
Asset retirement obligation (note 8)	204,975	204,975
	798,237	748,752
Deferred lease inducement (note 15)	4,932	7,388
	803,169	756,140
Shareholders' Equity		
Share capital (note 9)	29,394,189	27,009,163
Contributed surplus (notes 9 and 10)	2,087,643	2,233,225
Deficit	(10,305,708)	(9,632,393)
	21,176,124	19,609,995
	\$ 21,979,293	\$ 20,366,135

Approved by the Directors:

William J. Solloway (sgd.) Director

Brendan Donohoe (sgd.) Director

Klondex Mines Ltd.**Interim Consolidated Statements of Loss and Deficit (Unaudited)**

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Administrative Expenses				
Amortization	\$ 2,906	\$ 3,489	\$ 8,661	\$ 8,129
Consulting fees	31,991	32,459	96,622	115,600
Foreign exchange loss (gain)	(9,802)	(32,786)	(50,988)	42,206
Legal, audit and accounting	29,374	43,647	90,908	138,058
Management fees and salaries	25,660	26,610	78,234	93,373
Office and miscellaneous	35,421	15,298	73,052	57,651
Other item (note 7d)	-	-	19,934	-
Stock-based compensation	24,500	141,420	183,670	293,890
Telephone	4,069	4,806	12,837	13,751
Transfer agent and regulatory fees	29,519	9,322	57,833	106,423
Travel, conferences and meetings	21,211	58,679	151,831	204,874
Interest earned	4,505	(66,348)	(49,279)	(238,788)
	199,354	236,596	673,315	835,167
Comprehensive loss and loss for the period	(199,354)	(236,596)	(673,315)	(835,167)
Deficit, beginning of period	(10,106,354)	(8,978,705)	(9,632,393)	(8,421,334)
Fair Value Adjustment on Marketable Securities	-	-	-	41,200
Deficit, end of period	\$ (10,305,708)	\$ (9,215,301)	\$ (10,305,708)	\$ (9,215,301)
Basic and diluted loss per share	\$ (0.01)	\$ (0.01)	\$ (0.03)	\$ (0.04)
Weighted average number of shares outstanding	23,976,117	22,800,865	23,318,488	22,696,282

Klondex Mines Ltd.**Interim Consolidated Statements of Deferred Acquisition and Exploration Expenses**

Nevada Properties	Nine months ended September 30, 2008 (Unaudited)	Year Ended December 31, 2007
Balance, beginning of period	\$ 15,769,182	\$ 10,379,959
Acquisition of land	297,560	157,080
Advance – Drilling	124,503	99,293
Assays and core costs	417,195	435,797
Consulting	261,902	321,067
Drilling	3,148,580	3,288,193
Environmental consulting and permitting	210,428	257,229
Field supplies and equipment	124,465	127,969
Geophysics	31,123	1,319
Lease payments, taxes and royalties	13,015	20,852
Maintenance fees	83,142	70,129
Mapping and sampling	520	61,055
Miscellaneous	33,124	37,450
Site reclamation	-	106,019
Site visits	7,339	40,347
Wells	-	365,424
Current period expenditures	4,752,896	5,389,223
Balance, end of period	\$ 20,522,078	\$ 15,769,182

Klondex Mines Ltd.**Interim Consolidated Statements of Cash Flows (Unaudited)**

	Three months ended		Nine months ended	
	September 30,	2007	September 30,	2007
	2008		2008	
Cash provided by (used in)				
Operating activities				
Loss for the period	\$ (199,354)	\$ (236,596)	\$ (673,315)	\$ (835,167)
Items not involving cash				
Amortization	2,906	3,489	8,661	8,129
Deferred lease inducement realized	(819)	(819)	(2,456)	(2,456)
Stock based compensation	24,500	141,420	183,670	293,890
Foreign exchange - unrealized	(23)	31	(37)	31
	(172,790)	(92,475)	(483,477)	(535,573)
Change in non-cash working capital				
Accounts receivable	11,741	(6,149)	32,628	23,373
Prepaid expenses	3,698	(5,398)	(9,851)	(32,298)
Accounts payable	(15,902)	(461,881)	(151,228)	(43,447)
	(173,253)	(565,903)	(611,928)	(587,945)
Financing activities				
Issue of share capital	2,152,238	409,501	2,152,238	493,407
Share issue costs	(96,463)	-	(96,463)	-
Due to (from) related parties	16,753	(3,244)	60,668	(3,689)
	2,072,528	406,257	2,116,443	489,718
Investing activities				
Reclamation bond	-	-	-	(92,470)
Marketable securities	-	-	-	500,101
Purchase of property & equipment	(510)	(1,133)	(2,542)	(8,735)
Accounts payable related to mineral properties	(304,375)	360,268	161,606	5,619
Deferred exploration	(1,901,965)	(1,810,367)	(4,752,896)	(3,548,961)
	(2,206,850)	(1,451,232)	(4,593,832)	(3,144,446)
Net increase (decrease) in cash and equivalents	(307,575)	(1,610,878)	(3,089,317)	(3,242,673)
Cash and equivalents, beginning of period	1,457,680	7,288,525	4,239,422	8,920,320
Cash and equivalents, end of period	\$ 1,150,105	\$ 5,677,647	\$ 1,150,105	\$ 5,677,647

Supplemental Cash Flow Information (note 11)

The company had the following cash transactions:

Interest received	\$ 11,658	\$ 63,522	\$ 65,443	\$ 228,169
Income taxes paid	-	-	-	-

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1. Nature of Operations

The Company is in the business of owning, acquiring, exploiting, exploring, developing and evaluating mineral properties, and either joint venturing or developing these properties further or disposing of them when the evaluation is completed. The Company has interests in the properties all located in the State of Nevada, USA.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis, which presume the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company's ability to continue as a going concern is dependent upon achieving profitable operations and upon obtaining additional financing. While the Company is expending its best efforts in this regard, the outcome of these matters can not be predicted at this time. These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business.

The recoverability of amounts shown as mineral properties and deferred exploration costs is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete their development, and future profitable production or disposition thereof.

2. Financial Statement Presentation

These unaudited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a basis consistent with those followed in the most recent audited financial statements. These unaudited consolidated financial statements do not include all the information and footnotes required by generally accepted accounting principles for annual financial statements. Therefore readers are advised to refer to the company's annual audited financial statements for the year ended December 31, 2007 for additional information.

Changes in accounting policies**a) General standards for financial statement presentation**

The CICA has amended Handbook Section 1400 "General standards of financial presentation, effective for periods beginning on or after January 1, 2008 to include requirements to assess and disclose the Company's ability to continue as a going concern. The adoption of this new section did not have an impact on the Company's financial statements.

b) Capital Disclosures

In December 2006, the CICA issued Handbook section 1535 "Capital disclosures" which is effective for years beginning on or after October 1, 2007. The section specifies the disclosure of (i) an entity's objectives, policies, and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. Additional disclosure in Note 12b was added to comply with this section on adoption on January 1, 2008.

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2. Financial Statement Presentation**c) Financial instruments**

In December 2006, the CICA issued Handbook Section 3862, "Financial Instruments – Disclosures" and Section 3863, "Financial Instruments – Presentation" to replace Section 3861. These sections apply to interim and annual financial statements for fiscal periods beginning on or after October 1, 2007.

Section 3862 enhances standards for disclosures about financial instruments and non-financial derivatives and identifies the information that should be disclosed about them. Section 3863 carries forward from 3861 the standards for presentation of financial instruments and non-financial derivatives. These sections apply to interim and annual financial statements for fiscal periods beginning on or after October 1, 2007 and was adopted by the Company on January 1, 2008. The effect on the Company's financial statements was not material.

d) International Financial Reporting Standards

In January 2006, the CICA Accounting Standards Board (AcSB) adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards ("IFRS") by the end of 2011. The impact of the transition to IFRS on the Company's financial statements has not yet been determined.

3. Cash and cash equivalents

	September 30, 2008	December 31, 2007
Cash on deposit	\$ 1,150,105	\$ 401,093
Treasury bills (3.45% interest)	-	3,838,329
	\$ 1,150,105	\$ 4,239,422

4. Marketable securities

The Company holds 100 shares of Coeur D'Alene Mines with a book value of US\$503 and a market value of US\$161.

5. Rent Deposit

As part of the lease agreement, the Company paid the last three months of the fourth year (2009) and the last four months of the fifth year (2010) of the lease term in advance. These deposits bear interest at approximately 4% per annum, receivable at the end of the fourth and fifth year of the lease term.

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6. Property and Equipment

	September 30, 2008		
	Cost	Accumulated amortization	Net book value
Computer equipment	\$ 37,814	\$ 20,567	\$ 17,247
Telephone equipment	1,376	928	448
Furniture and fixtures	29,068	18,353	10,715
Leasehold improvements	24,736	17,274	7,462
	\$ 92,994	\$ 57,122	\$ 35,872

	December 31, 2007		
	Cost	Accumulated amortization	Net book value
Computer equipment	\$ 37,229	\$ 16,602	\$ 20,627
Telephone equipment	1,376	864	512
Furniture and fixtures	27,021	16,119	10,902
Leasehold improvements	24,736	14,786	9,950
	\$ 90,362	\$ 48,371	\$ 41,991

7. Mineral Property and Related Deferred Exploration Expenses**a) Fire Creek Gold Properties, Lander County, Nevada, U.S.A.**

The Company has a 100% ownership interest in this land block which has been expanded to a total of 484 claims, or 9,680 acres, and fee lands of 1,428 acres. In 1988, the Company entered into an agreement with two joint venturers to explore and develop the gold property. Under the terms of the agreement, Klondex received an advance minimum royalty of \$10,000 per month. The joint venturers terminated the agreement on March 31, 1999. As a result the Company has regained 100% ownership of the property and is not obligated to repay the advance royalty payments amounting to \$1,582,162 (US\$1,220,000). During fiscal 2002, the Company purchased the drill cores and data from the joint venturers for consideration of US\$4,000 and issuance of 15,000 common shares of the Company.

i) Corral Canyon, Lander County, Nevada

The Company has a 100% ownership interest in 42 claims (840 acres) in Corral Canyon, Lander County, Nevada.

ii) Woodtick claims, Lander County, Nevada

The Company has a 100% ownership interest in these 26 claims (520 acres). They lie directly north-east of Fire Creek. These claims provide access to the northern Fire Creek block from the powerline road.

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7. Mineral Property and Related Deferred Exploration Expenses (continued)**b) Lander & Eureka Counties, Nevada**

During fiscal 2006, the Company entered into an option agreement to acquire a 100% interest (the "Option") in certain lands located in Lander & Eureka Counties, Nevada (the "Property"), from Fire Creek Lands, LLC (the "Optionor"). The Property has the potential for copper, silver, gold and other valuable mineral deposits. In consideration of the Option, the Company must make option payments in the aggregate amount of \$380,000 over a period of five years (US\$155,000 paid to date), and may purchase the Property on or before June 17, 2010 for \$2,500,000 with prior option payments being applied as a credit towards the purchase price.

In the event of the outright purchase of the Property by the Company, the Optionor will retain a 3% net smelter royalty, with the Company having a one-time option to purchase one percent of the royalty in consideration of \$1,000,000, at any time until June 17, 2015.

c) Maggie Creek, Elko County, Nevada

The Company has a 66.66% undivided interest in 48 claims (960 acres) situated in sections 8, 16 and 20 in the Maggie Creek area.

d) Hot Point Springs, Lander County, Nevada

The Company has a 100% ownership interest in 39 claims (780 acres) situated about 6 miles east of the town of Crescent Valley.

During fiscal 2006, the Company negotiated the principal terms of a 10 year lease of the Hotsprings Point Property to Vasquir Mines Inc. ("Vasquir"). Under the negotiated terms, Vasquir would lease the property for an initial cash payment and share issuance, annual cash payments and exploration expenditures, and a scaled net smelter return royalty of a minimum of 3% to a maximum of 10%.

On December 5, 2006 the Company received a claim filed in the Nevada Supreme Court from Vasquir Mines Inc. ("Vasquir"), a subsidiary of CMQ Resources Inc. in relation to the lease agreement between Vasquir and Klondex Mines Ltd. for Klondex Mines Hot Springs Point property, located 8.5 miles southeast of the Fire Creek Property.

During the previous quarter, the companies agreed to amend certain language in the lease and Klondex paid US\$20,000 to Vasquir with respect to legal fees incurred. During this current quarter, the Company was notified that Vasquir was abandoning its lease agreement, with no further liabilities nor obligations on the part of either party.

e) Reef claims, Churchill County, Nevada

The Company has a 100% ownership interest in 8 claims (160 acres) in the Fairchild District of Churchill County.

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8. Asset Retirement Obligation

Included in the carrying value of the mineral properties is \$204,975 representing the fair value of a liability for asset retirement obligations that arose as a result of drilling activities since fiscal 2004, on the Fire Creek properties. The fair value of the liability \$204,975 was determined to be equal to the estimated drill well site remediation costs as it is assumed that remediation would commence within six months of year end. As at September 30, 2008 the Company has not commenced development of any property and accordingly a reasonable estimate of the timing of the cash flows can not be made. As a result the expected cash costs have been recorded as a current liability.

In the previous fiscal years, the Company posted non-interest bearing bonds of \$98,956 (US\$83,503) with the Bureau of Land Management in the State of Nevada as security for these obligations. During the year ended December 31, 2007, the Company posted additional non-interest bonds of \$92,470 (US\$80,000) and \$13,549 (US\$13,797) for a total of \$204,975 (US\$177,300). Fair value can not be reasonably determined and accordingly the bonds have been recorded at historical cost.

9. Share Capital

a) **Authorized:** unlimited common shares with no par value

b) **Issued**

	Shares	Amount	Contributed Surplus
Balance, December 31, 2006	22,515,548	\$ 25,777,601	\$ 2,157,245
Issued for cash			
Exercise of options	150,000	109,500	-
Exercise of warrants	132,500	311,375	-
Exercise of agents' warrants	203,000	456,750	-
Return to treasury (agents' warrants)	(11,375)	(25,593)	-
Fair value of options exercised	-	93,300	(93,300)
Fair value of agents' warrants exercised	-	286,230	(286,230)
	474,125	1,231,562	(379,530)
Stock based compensation	-	-	455,510
Total increase (decrease) for the year	474,125	1,231,562	75,980
Balance, December 31, 2007	22,989,673	27,009,163	2,233,225

Klondex Mines Ltd.**Notes to the Interim Consolidated Financial Statements (Unaudited)**

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9. Share Capital (continued)**b) Issued: (continued)**

	Shares	Amount	Contributed Surplus
Issued for cash			
Private placement @ \$1.15	1,520,000	1,748,000	-
Exercise of options	560,131	404,237	-
Fair value of options exercised	-	329,252	(329,252)
	2,080,131	2,481,489	(329,252)
Share issue costs			
Commission on private placement	-	(89,700)	-
Legal costs	-	(6,763)	-
	-	(96,463)	-
Stock based compensation	-	-	183,670
Total increase (decrease) for the period	2,080,131	2,385,026	(145,582)
Balance, September 30, 2008	25,069,804	\$ 29,394,189	\$ 2,087,643

On August 21, 2008, the Company announced that it completed a non-brokered private placement of 1,520,000 units (the "Units") at a price of \$1.15 per share for gross proceeds of \$1,748,000. Each Unit consists of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at a price of \$1.60 for a period for 12 months after closing. The warrants are subject to a 30-day early expiration if the stock closes on the Toronto Stock Exchange, for a period of 30 consecutive trading days, at a price of \$1.90 or greater. A 6% commission that applied to a portion of the financing attributable to authorized agents in the amount of \$89,700 was paid.

c) Options outstanding

A summary of the Company's outstanding stock options as of September 30, 2008 and the changes during the period then ended is presented below:

	Number of options	Weighted average exercise price
Outstanding at December 31, 2006	1,930,131	\$ 1.32
Options granted (note 10)	350,000	2.27
Options exercised	(150,000)	0.73
Outstanding and exercisable at December 31, 2007	2,130,131	1.52
Options granted (note 10)	1,205,000	2.30
Options exercised	(560,131)	0.73
Outstanding at September 30, 2008	2,775,000	\$ 1.45

Klondex Mines Ltd.**Notes to the Interim Consolidated Financial Statements (Unaudited)**

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9. Share Capital (continued)**c) Options outstanding (continued)**

At September 30, 2008, there were 2,775,000 stock options outstanding, entitling the holders thereof the right to purchase one common share for each option held as follows:

Number of Underlying Shares	Weighted average exercise price	Exercisable	Weighted average exercise price	Exercise Price	Expiry Date
200,000		200,000		\$ 0.65	November 28, 2008
375,000		375,000		\$ 1.05	June 10, 2010
645,000		645,000		\$ 2.35	July 17, 2011
150,000		150,000		\$ 2.30	January 19, 2012
200,000		200,000		\$ 2.25	May 7, 2012
105,000		78,750		\$ 2.30	January 21, 2013
1,100,000		-		\$ 0.86	September 17, 2013
2,775,000	\$1.45	1,648,750	\$1.83		

d) Warrants outstanding

A summary of the Company's outstanding share purchase warrants at September 30, 2008 and the changes during the period then ended is presented below:

	Number of warrants	Weighted average exercise price
Outstanding and exercisable December 31, 2006	1,932,125	\$ 2.88
Warrants exercised	(132,500)	2.35
Agents' unit warrants exercised	(203,000)	2.25
Warrants expired	(2,500)	3.00
Warrants cancelled	(1,490,000)	3.00
Warrants re-priced and extended	1,490,000	2.35
Warrants expired	(1,490,000)	2.35
Agents' unit warrants expired	(1,750)	2.25
Agents' warrants cancelled	(102,375)	3.00
Agents' warrants re-priced and extended	102,375	2.35
Agents' warrants expired	(102,375)	2.35
Outstanding and exercisable at December 31, 2007	Nil	Nil
Warrants granted, as per private placement	1,520,000	1.60
Outstanding and exercisable at September 30, 2008	1,520,000	\$ 1.60

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10. Stock Based Compensation

The Company has adopted an incentive stock option plan (the "Plan"). The essential elements of the Plan provide that the aggregate number of common shares of the Company's capital stock issuable pursuant to options granted under the Plan may not exceed 15% of the number of issued shares of the Company at the time of the granting of the options. Options granted under the Plan will have a maximum term of ten years. The exercise price of options granted under the Plan will not be less than the discounted market price of the common shares (defined as the last closing market price of the Company's common shares immediately preceding the issuance of a news release announcing the granting of the options, less the maximum discount permitted under TSX policies), or such other price as may be agreed to by the Company and accepted by the TSX. According to the 2007 stock option plan, the vesting periods of options granted under the plan may vary at the discretion of the Plan Administrator, subject to Regulatory approval.

On January 22, 2008 the Company granted directors, officers and consultants 105,000 incentive stock options at an exercise price of \$2.30 per share expiring on January 21, 2013.

The fair value of the incentive stock options granted, \$1.40, was estimated on the grant date using the Black-Scholes option pricing model with the following assumptions:

	2008		2007	
	105,000 options	150,000 options	200,000 options	
Dividend rate	0.00 %	0.00 %	0.00 %	
Risk-free interest rate	3.75 %	4.07 %	4.17 %	
Expected life	5 years	5 years	5 years	
Expected annual volatility	80.12 %	93.22 %	90.71 %	
Strike price	\$ 2.30	\$ 2.30	\$ 2.25	
Spot price	\$ 2.15	\$ 1.88	\$ 1.83	

The total compensation expense for the vested portions expensed in the statement of operations and credited to contributed surplus was \$183,670 (2007 - \$293,890).

On September 17, 2008, the Company granted directors, officers and consultants 1,100,000 incentive stock options at an exercise price of \$0.86 per share expiring on September 17, 2013. These optioned shares may be acquired as follows:

- (i) Up to 50% of the optioned shares may be acquired at any time after March 17, 2009 and prior to the expiry date;
- (ii) The balance of 50% of the optioned shares may be acquired at any time after September 17, 2009 and prior to the expiry date.

	2008
	1,100,000 options
Dividend rate	0.00 %
Risk-free interest rate	3.25 %
Expected life	5 years
Expected annual volatility	70.52 %
Strike price	\$ 0.86
Spot price	\$ 0.89

Once fully vested, the fair value of the options granted is \$598,000. No stock-based compensation has been recorded for the period.

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11. Non Cash Transactions

The following non-cash transactions were recorded during the period ended:

September 30,	2008		2007	
Financing activities				
Contributed surplus allocated on exercise of options	\$	329,252	⌘	93,300
Asset retirement obligation recorded	\$	-	⌘	92,470
Investing activity				
Asset retirement obligation recorded as mineral property costs	\$	-	⌘	(92,470)

12. Financial Instruments**a) Currency risk**

Currency risk is the risk to the Company's earnings that arises from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

At September 30, 2008 the Company had the following financial assets and liabilities:

		US Dollars
Cash	\$	297,808
Marketable securities	\$	475
Reclamation bonds	\$	177,300
Overdraft (Brokerage account)	\$	773,278
Accounts payable	\$	483,499
Due to related parties	\$	22,696

At September 30, 2008 US dollar amounts were converted at a rate of \$1.0599 Canadian dollars to \$1.00 US dollar.

b) Capital risk management

The Company manages its capital to ensure it will be able to continue as a going concern while maximizing the return to shareholders largely through equity sales. These stock issues depend on numerous factors including a positive mineral exploration environment, positive stock market conditions, a company's track record, and the experience of management. The capital structure of the Company consists of shareholder's equity, comprising issued capital, contributed surplus and deficit.

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13. Related Party Transactions

The following transactions with related parties have been valued in these financial statements at the exchange amount, which is the amount of consideration established and agreed to by the parties:

- a) During the nine months ended September 30, 2008, the Company paid consulting fees of \$37,432 (2007 - \$40,330) and mineral property services of \$113,002 (2007 - \$100,930) to an officer and to companies controlled by each of a director and an officer.
- b) During the nine months ended September 30, 2008, the Company incurred salary & benefit expenses of \$50,887 (2007 - \$63,355) to the President.
- c) During the nine months ended September 30, 2008, the Company incurred management fees of \$27,347 (2007 - \$30,018) and rent of \$4,558 (2007 - \$5,337) to a director.
- d) During the nine months ended September 30, 2008, the Company incurred accounting fees of \$47,705 (2007- \$45,463) to an officer.
- e) Amounts owing to directors and officers of \$39,106 (due from 2007 - \$21,562) are non-interest bearing, unsecured, and payable upon demand. Fair value cannot be reliably determined.

14. Segmented Information

September 30, 2008	Canada	United States	Total
Interest earned	\$ 49,279	\$ -	\$ 49,279
Expenses	(448,032)	(274,562)	(722,594)
Loss for the period	\$ (398,753)	\$ (274,562)	\$ (673,315)
Identifiable assets	\$ 1,349,896	\$ 20,629,397	\$ 21,979,293

September 30, 2007	Canada	United States	Total
Interest earned	\$ 238,788	\$ -	\$ 238,788
Expenses	(701,871)	(372,084)	(1,073,955)
Loss for the period	\$ (463,083)	\$ (372,084)	\$ (835,167)
Identifiable assets	\$ 5,713,562	\$ 14,371,161	\$ 20,084,723

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15. Commitments

As at September 30, 2008, the Company has shared lease commitments for office space expiring in February 2010. Minimum lease payments including estimated taxes and excluding operating costs for each of the next three years are as follows:

2008	\$ 6,016
2009	\$ 16,042
<u>2010</u>	<u>\$ 2,005</u>
Total	\$ 24,063

As an inducement to enter into the new office space lease the landlord funded \$65,000 of leasehold improvements on behalf of the 4 tenants. The Company's share of these improvements has been capitalized and the resulting deferred leasehold inducement will be recognized as a reduction of rent expense over the term of the lease.

KLONDEX MINES LTD.

MANAGEMENT DISCUSSION & ANALYSIS

For the Nine Months Ended September 30, 2008

Directors and Officers as at November 7 2008:

Directors:

William J. Solloway
Brendan Donohoe
Robert Sibthorpe
John Pollock
Ronald Shorr

Officers:

President – William J. Solloway
Chief Financial Officer – Jorge Avelino
Secretary – Fred Baker

Contact Name:

Fred Baker
Telephone: (604) 638-3273
(604) 602-4935
Fax: (604) 602-4936

Toronto Stock Exchange Symbol:

KDX

KLONDEX MINES LTD.

MANAGEMENT DISCUSSION & ANALYSIS

For the Nine Months Ended September 30, 2008

1.1 Date of This Report

November 7, 2008

This MD&A includes certain statements that may be deemed “forward-looking statements”. All statements in this discussion, other than statements of historical facts, that address exploration drilling, exploitation activities and events or developments that the Company expects, are forward-looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices, exploitation and exploration successes, continued availability of capital and financing and general economic, market or business conditions. Investors are cautioned that any such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in the forward-looking statements.

1.2 Overall Performance

Description of Business

Klondex Mines Ltd. (“Klondex” or the “Company”) was founded in 1974 and is listed on the Toronto Stock Exchange under the symbol '[KDX](#)'. Klondex Mines is engaged in acquiring, exploring and developing gold and silver properties in Nevada.

Klondex holds mineral interests in the prime area of northern Nevada's mining industry. The Company's principal property is the 100% owned Fire Creek Property. The Fire Creek Property comprises leasehold land along the Northern Nevada Rift in North Central Nevada. It is strategically located in the Crescent Valley area of the Battle Mountain gold belt between the past producing Mule Canyon Mine to the north and the world-class Pipeline and Cortez gold deposits to the south.

1.3 Selected Annual Information

The highlights of financial data for the Company for the three most recently completed financial years are as follows:

	December 31, <u>2007</u>	December 31, <u>2006</u>	December 31, <u>2005</u>
(a) Total revenue	Nil	Nil	Nil
(b) Loss before extraordinary items			
(i) Total loss	\$1,252,259	\$1,470,080	\$1,437,133
(ii) Loss per share - basic	\$0.06	\$0.07	\$0.09
(iii) Loss per share - diluted	\$0.06	\$0.07	\$0.09
(c) Net loss			
(i) Total loss	\$1,252,259	\$1,470,080	\$1,437,133
(ii) Loss per share - basic	\$0.06	\$0.07	\$0.09
(iii) Loss per share - diluted	\$0.06	\$0.07	\$0.09
(d) Total assets	\$20,366,135	\$19,991,957	\$9,270,560
(e) Total long-term liabilities	7,388	10,663	13,938
(f) Cash dividends declared per-share	N/A	N/A	N/A

1.4 Results of Operations

Discussion of Acquisitions, Operations and Financial Condition

The following should be read in conjunction with the financial statements of the Company and notes attached hereto.

NEVADA MINERAL PROPERTIES

Acquisition and Exploration expenditures:

Nevada Properties	September 30, 2008	December 31, 2007
Balance, beginning of the period	\$ 15,769,182	\$ 10,379,959
Acquisition of land	297,560	157,080
Advance - Drilling	124,503	99,293
Assays and core costs	417,195	435,797
Consulting - geological	261,902	321,067
Drilling	3,148,580	3,288,193
Environmental consulting & permitting	210,428	257,229
Field supplies and equipment	124,465	127,969
Geophysics	31,123	1,319
Lease payments, taxes and royalties	13,015	20,852
Maintenance fees	83,142	70,129
Mapping and sampling	520	61,055
Miscellaneous	33,124	37,450
Site reclamation	-	106,019
Site visits	7,399	40,347
Wells	-	365,424
Current period expenditures	4,752,896	5,389,223
Balance, end of period	\$ 20,522,078	\$ 15,769,182

1.4 Results of Operations (continued)

Fire Creek Gold Properties, Lander County, Nevada

The Company has a 100% ownership interest in this land block which was expanded during fiscal 2003 by 2,720 acres to a total of 4,875 acres. During the fiscal year 2004, the Company acquired four additional blocks of land (80 acres) in the area for Cdn\$69,567 (US\$52,983). During the fiscal year 2006, the Company acquired additional blocks of land, which totaled 130 acres for Cdn\$119,030 (US\$97,009). These acquisitions bring the total acreage to 5,185 acres. These acquisitions were necessary to ensure logistical access to the main mineralized zones and to acquire areas which represent the strike extensions of these zones. During the year ended December 31, 2007, the Company acquired an additional 50 acres for \$70,433 (US\$66,490).

During the second quarter, the Company acquired an additional 400 acres for \$184,504 (US\$182,475). The Company includes the Woodtick and Corral Canyon claims in the greater Fire Creek Project area. The total unpatented claims within the project area now total 484 claims, or 9,680 acres and fee lands now total 1,428 acres.

Corral Canyon, Lander County, Nevada

The Company has a 100% ownership interest in 42 claims (840 acres) in Corral Canyon, Lander County, Nevada. The claims are in good standing and will be renewed on September 1, 2009. These claims were added to the Fire Creek project in fiscal 2007 and are included in the Fire Creek discussion.

Woodtick claims, Lander County, Nevada

The Company has a 100% ownership interest in these 26 claims (520 acres). They lie directly north-east of Fire Creek along the Mule Canyon-Fire Creek-Buckhorn volcanic trend. These claims provide access to the northern Fire Creek block from the powerline road. The claims are in good standing and will be renewed on September 1, 2009. These claims were added to the Fire Creek project in fiscal 2007 and are included in the Fire Creek discussion.

Exploration Results and Future Plans & Developments

Fire Creek Underground Mining Contractor Appointed:

Klondex appointed SMD (Small Mine Development L.L.C.) of Boise, Idaho as its Mining Contractor for the underground exploration and development at Fire Creek. The Company's permitting process is being directed by permitting consultants Enviroscientists Inc., of Reno, Nevada. Although most permits are expected to be issued in the fall or winter of 2008, there is no assurance that the government bureau will have processed the required permits by that time. Klondex's applications include a permit to extract up to 120,000 tons of Fire Creek ore in a bulk sample for the purposes of metallurgical testing and determination of gold recovery rates. Klondex plans to target its bulk sampling effort at ore ranging from 1-2 ounces per ton, creating the potential to generate substantial cash flows.

1.4 Results of Operations (continued)

Fire Creek Gold Property (continued)

Phase 7 Drilling: The Phase 7 program contemplated drilling 40-60 holes between mid-March and mid-December 2008.

On July 8, 2008, the Company received the results for six of the first seven holes, totaling 6,834 feet. Of special interest are intercepts for holes FC0807 (20 feet @ 0.361 oz/ton gold – 18 feet true width), which extends the New North vein system 100 meters and leaves the zone open to the north, and FC0806 (5 feet @ 0.629 oz/ton gold – 4.5 feet true width), which extends the Far North zone 50 meters to the south.

On October 14, 2008 the Company reported new high-grade intercepts and the extension of two vein zones. The Company has completed 17 drill holes, totaling 25,652 feet since the July 8th announcement.

Phase 7 surface drilling at Fire Creek is nearing completion and a final drilling report will be issued later this year when remaining assay results are received. Thereafter the Company plans to update its NI 43-101 resource estimate to incorporate drilling data over the two years since the Company's last update in September 2006. At Fire Creek, the Company has defined an Indicated Mineral Resource estimated at 1,636,555 tonnes grading 19.88 grams per tonne (0.576 oz/ton) containing 1,045,738 oz of gold in two separate mineral zones. An updated drill hole location map is available on the Company website www.klondexmines.com and geochemical results are listed in the table below.

Once all drill results have been received and analyzed and a new 43-101 resource estimate has been calculated, the Company will conduct another phase of surface exploration as it moves forward with plans to begin underground operations that will collect bulk samples of veins as well as further define the resource with underground drilling.

Main South Zone Extension

FC0812, FC0816, FC0819, FC0821 and FC0824 all tested the Main South Extension. FC0821 (17.7 feet true width averaging 0.213 oz/ton gold and 0.60 oz/ton silver) and FC0824 (3.5 feet true width averaging 0.311 oz/ton gold and 0.60 oz/ton silver) extend the high-grade vein zone another 325 feet to the south. The zone is still open to the south. FC0812, located 164 feet north of FC0821 contains 170 feet true thickness of 0.062 oz/ton gold and 0.31 oz/ton silver. FC0816 and FC0819 tested to the east of the above intercepts and returned thick intercepts of 0.030 to 0.059 oz/ton gold.

IP Anomalies

Drill holes FC0814 and FC0826 tested IP anomaly 14. FC0814 penetrated tuff, an unfavorable vein host, before reaching the IP associated fault, but FC0826 intersected 3.5 feet true width averaging 0.293 oz/ton gold and 0.16 oz/ton silver. Another hole is planned above FC0814 to test the vein to the north. FC0813 tested IP anomaly 13 and no significant gold values were found.

1.4 Results of Operations (continued)

Fire Creek Gold Property (continued)

New North Zone In-Fill Drilling

In-fill drilling at the New North Zone by FC0810 (9.0 feet true width averaging 0.641 oz/ton gold and 0.40 oz/ton silver) and FC0809 (4.5 feet true width averaging 0.159 oz/ton gold and 0.23 oz/ton silver) show continuity of the veining. Drill hole FC0808 penetrated unfavorable tuff beds before reaching the vein structure, as a result of the vein being offset to the west. Including the new intersection in FC0807 (see July 8, 2008 drilling update), the New North Zone has been extended by 328 feet this drilling season to 650 feet. Drill holes FC0832 and FC0833 are in progress and will test the New North Zone another 100 meters to the north. As of the date of this report, the Company has not received the drilling results.

Far North Zone Extended 164 Feet to the North

Drill hole FC0817 (two 3.5 feet true width intercepts averaging 0.163 and 0.183 oz/ton gold and <0.015 oz/ton silver) extends the Far North vein system 164 feet north. FC0822 (13.5 feet true width averaging 0.439oz/ton gold and 1.26 oz/ton silver + 4.5 feet true width averaging 0.307 oz/ton gold and 0.31 oz/ton silver + 4.5 feet true width averaging 0.225 oz/ton gold and 0.56 oz/ton silver) shows continuity of two veins from 50 meters to the north with excellent vein thickness and grades. Drill hole FC0806 (see July 8th press release) had earlier increased the zone's length 164 feet. Far North now has a strike length of over 1,475 feet. Any further drilling in the Far North have been terminated until the spring of 2009.

Northeast Zone

Finally, the three holes completed in the Northeast zone (FC0811, FC0815, FC0820) were disappointing. FC0820B, contained 5 feet averaging 0.03 oz/ton gold, the highest value of the three. The geology in the Northeast Zone is proving very challenging mainly because of very large fault offsets disrupting the strata but remains an attractive area of opportunity given the substantial high grade that identified the zone last year.

Underground Permitting and Bulk Sampling Update:

Klondex anticipates receiving permits necessary to commence work on an underground program during the fourth quarter of 2008. Pending financing and the receipt of permits the Company plans to drive a 4,715 feet long decline to access mineralization underground. Once completed, the decline will enable underground in-fill drilling of the resource as well as bulk sampling for metallurgical testing of up to 120,000 tons of material over a three to five year period. The Company plans to target its bulk sampling effort within vein mineralization averaging 1-2 oz/ton gold, creating the potential to generate substantial cash flows to fund further development of the resource.

Gold and silver analyses are 50-gram fire assays of one-half sawed core conducted by ALS-Chemex Labs of Sparks, Nevada. All gold assays over 0.03 oz/ton are re-analyzed and random repeats and standard samples run on a regular basis.

1.4 Results of Operations (continued)

Fire Creek Gold Property (continued)

Fire Creek Drill Results Update September, 2008 (≥ 10 feet @ ≥ 0.03 oz/ton gold)										
Hole No.	From (feet)	To (feet)	Interval (feet)	True Width	Gold (oz/ton)	Silver (oz/ton)	True Width (m)	Gold (g/t)	Silver (g/t)	Target Area
FC0805B	In Progress									Main
FC0808	No +0.03 oz/ton Gold Values									N. New North
FC0809	905	915.0	10.0	8.0	0.041	0.07	2.4	1.40	2.40	N. New North
Including	1175	1187.0	12.0	10.8	0.098	0.07	3.3	3.36	2.40	N. New North
	1175	1180.0	5.0	4.5	0.159	0.23	1.4	5.45	7.81	N. New North
	1260	1270.0	10.0	9.0	0.038	0.07	2.7	1.30	2.40	N. New North
FC0810	1115	1125.0	10.0	9.0	0.067	0.28	2.7	2.29	9.59	N. New North
Including	1155	1165.0	10.0	9.0	0.641	0.40	2.7	21.95	13.70	N. New North
	1160	1165.0	5.0	4.5	1.244	0.70	1.4	42.60	23.97	N. New North
	1230	1235.0	5.0	4.5	0.097	0.14	1.4	3.32	4.79	N. New North
FC0811	No +0.03 oz/ton Gold Values									Northeast
FC0812	475	715.0	240.0	169.7	0.062	0.20	51.7	2.12	6.85	Main South
Including	590	605.0	15.0	11.6	0.241	0.67	3.5	8.25	22.95	Main South
FC0813	No +0.03 oz/ton Gold Values									IP Anomaly 13
FC0814	No +0.03 oz/ton Gold Values									IP Anomaly 14
FC0815	No +0.03 oz/ton Gold Values									Northeast
FC0816	1055	1090.0	35.0	24.7	0.059	0.37	7.5	2.02	12.67	South Main
FC0817	960	975.0	15.0	10.6	0.060	<0.015	3.2	2.05	<0.50	N. Far North
Including	1000	1045.0	45.0	31.8	0.082	<0.015	9.7	2.81	<0.50	N. Far North
	1015	1020.0	5.0	3.5	0.163	<0.015	1.1	5.58	<0.50	N. Far North
	1040	1045.0	5.0	3.5	0.183	<0.015	1.1	6.27	<0.50	N. Far North
FC0818	In Progress									Main South
FC0819	810	820.0	10.0	7.1	0.032	0.22	2.2	1.10	7.53	Main South
	825	835.0	10.0	7.1	0.030	0.21	2.2	1.03	7.19	Main South
	855	870.0	15.0	10.6	0.033	0.43	3.2	1.13	14.73	Main South
	1010	1020.0	10.0	7.1	0.036	0.10	2.2	1.03	7.19	Main South
FC0820B	No +0.03 oz/ton Gold Values									Northeast
FC0821	565	630.0	65.0	46	0.116	0.31	14.0	3.97	10.62	Main South
Including	595	620.0	25.0	17.7	0.213	0.60	5.4	7.29	20.55	Main South
	730	875.0	145.0	102.5	0.039	0.18	31.3	1.34	6.16	Main South
FC0822	780	835.0	55.0	49.5	0.040	0.15	15.1	1.37	5.14	Far North
Including	865	895.0	30.0	27	0.262	0.93	8.2	8.97	31.85	Far North
	870	885.0	15.0	13.5	0.439	1.26	4.1	15.03	43.15	Far North
Including	985	1000.0	15.0	13.5	0.161	0.13	4.1	5.51	4.45	Far North
	995	1000.0	5.0	4.5	0.307	0.31	1.4	10.51	10.62	Far North
Including	1090	1125.0	35.0	31.5	0.069	0.28	9.6	2.36	9.59	Far North
	1125	1130.0	5.0	4.5	0.225	0.56	1.4	7.71	19.18	Far North
	1165	1175.0	10.0	9	0.040	0.26	2.7	1.37	8.90	Far North
FC0823	In Progress									Northeast
FC0824	575	620.0	45.0	31.8	0.097	0.10	9.7	3.32	3.42	Main South
Including	590	595.0	5.0	3.5	0.311	0.60	1.1	10.65	20.55	Main South
	775	780.0	5.0	3.5	0.100	0.34	1.1	3.42	11.75	Main South
Including	790	800.0	10.0	7.1	0.031	0.12	2.2	1.06	4.11	Main South
	825	837.5	12.5	8.8	0.037	0.37	2.7	1.27	12.67	Main South
Including	880	910.0	30.0	21.2	0.072	0.47	6.5	2.47	16.10	Main South
	905	910.0	5.0	3.5	0.187	1.30	1.1	6.40	44.52	Main South

1.4 Results of Operations (continued)

Fire Creek Gold Property (continued)

Fire Creek Drill Results Update September, 2008 (≥ 10 feet @ ≥ 0.03 oz/ton gold)										
Hole No.	From (feet)	To (feet)	Interval (feet)	True Width	Gold (oz/ton)	Silver (oz/ton)	True Width (m)	Gold (g/t)	Silver (g/t)	Target Area
FC0825	In Progress									Northeast
FC0826	800	810.0	10.0	7	0.191	0.31	2.1	6.54	10.62	IP Anomaly 14
	805	810.0	5.0	3.5	0.293	0.16	1.1	10.03	5.48	IP Anomaly 14
FC0827	In Progress									Main N. Ext.
FC0828	820	840.0	20.0	14.1	0.052	0.33	4.3	1.78	11.30	Main South
	855	890.0	35.0	24.7	0.044	0.30	7.5	1.51	10.27	Main South

Lander & Eureka Counties, Nevada

The Company has an option to acquire a 100% interest (the "Option") in certain lands located in Lander & Eureka Counties, Nevada (the "Property"), from Fire Creek Lands, LLC (the "Optionor"). The Property has the potential for copper, silver, gold and other valuable mineral deposits. In consideration of the Option, the Company must make option payments in the aggregate amount of \$380,000 over a period of five years (US\$155,000 paid to date), and may purchase the Property on or before June 17, 2010 for \$2,500,000 with prior option payments being applied as a credit towards the purchase price.

In the event of an outright purchase of the Property by the Company, the Optionor will retain a 3% net smelter royalty, with the Company having a one-time option to purchase one percent of the royalty in consideration of \$1,000,000, at any time until June 17, 2015.

Reef claims, Churchill County, Nevada

The Company has a 100% ownership interest in 8 claims (160 acres) in the Fairchild District of Churchill County. Anomalous gold and silver were previously detected along a siliceous reef which runs approximately a half mile in length. The claims are in good standing and will be renewed on September 1, 2009. The property is subject to U.S. federal and state environmental statutes. No future work is planned for the property at this time.

Maggie Creek, Elko County, Nevada

The Company has a 66.66% undivided interest in 48 claims (960 acres) situated in sections 8, 16 and 20 in the Maggie Creek area in Elko County, Nevada. The claims are in good standing and will be renewed on September 1, 2009. The property is subject to U.S. federal and state environmental statutes. No future work is planned for the property at this time. The claims are being held due to their strategic location.

Hot Springs Point, Lander County, Nevada

The Company has a 100% ownership interest in 39 claims (780 acres) situated about 6 miles east of the town of Crescent Valley. They are in a basalt-andersite setting. The claims are in good standing and will be renewed on September 1, 2009.

1.4 Results of Operations (continued)

Hot Springs Point, Lander County, Nevada (continued)

On July 23, 2006, the Company negotiated the principal terms of a 10 year lease of the Hot Springs Point Property to Vasquir Mines Inc. (“Vasquir”). Under the negotiated terms, Vasquir would lease the property for an initial cash payment and share issuance, annual cash payments and exploration expenditures, and a scaled net smelter return royalty of a minimum of 3% to a maximum of 10%.

On December 5, 2006 the Company received a claim filed in the Nevada Supreme Court from Vasquir, a subsidiary of CMQ Resources Inc. in relation to a lease agreement for the Hot Springs Point property. Vasquir claimed that the Company repudiated the agreement and sought various remedies. Vasquir claimed that its damages included (but was not limited to) the withdrawal or postponement of \$10,125,000 (Cdn.) in financing.

During the previous quarter, the companies agreed to amend certain language in the lease and Klondex paid US\$20,000 to Vasquir with respect to legal fees incurred. During this current quarter, the Company was notified that Vasquir was abandoning its lease agreement, with no further liabilities or obligations on the part of either party.

Discussion of Operations and Financial Condition

Results of Operations

Interest income for the nine months ended September 30, 2008 was \$49,279 compared to \$238,788 for the nine months ended September 30, 2007. The loss for the nine months ended September 30, 2008 was \$673,315 as compared with a loss of \$835,167 for the nine months ended September 30, 2007. The decrease in the loss for the current period is related to the following:

- Foreign exchange gain as a result of purchasing US\$ when the Canadian \$ was higher than the US\$. The US\$ exchange rate average for the nine months ended September 2008 was 1.0128 as compared to 1.09262 for the nine months ended September 2007.
- Stock-based compensation decreased by \$110,220 during the nine months ended September 2008 as compared to the nine months ended September 2007.
- Transfer agent and regulatory fees decreased by \$48,590 in the current period. In the comparative period, the Company incurred an expense of \$75,858 for listing on the Toronto Stock Exchange.

A breakdown of the “Consulting Fees” expense is as follows:

Corporate & administration fees	\$	13,612
Shareholders communication (Canada)		37,432
Shareholders communication (USA)		45,578
Total	\$	96,622

A breakdown of the “Travel, accommodation and meetings” expense is as follows:

Travel	\$	42,327
Communication and information		86,619
Conferences & meetings		6,634
Meals & entertainment		11,381
Press releases and printed materials		4,870
Total	\$	151,831

1.4 Results of Operations (continued)

Discussion of Operations and Financial Condition

Investor Relations Activities

During the period, the Company responded to investor inquiries and conducted shareholder and investor mailouts. The responsibility for responding directly to all investor inquiries and for conducting shareholder and investor mailouts is handled by the Corporate Secretary in Vancouver and by the 2 directors in New York.

In January 2007, the Company entered into an agreement with Jaffoni & Collins (“JCI”) to provide investor relations services for the Company. Founded in 1994, JCI (www.jcir.com) is a full-service investor relations agency exclusively focused on creating and executing communication programs for public companies. JCI will be responsible for developing and implementing, and advising the Company with respect to investor relations and financial policies and opportunities. JCI is based in New York, New York and works closely with institutional investors, sell-side analysts, brokers, and private investors and the media in Canada and the United States. JCI and its principals are at arm’s length to the Company.

Financings, Principal Purposes & Milestones

On August 21, 2008, the Company announced that it completed a non-brokered private placement of 1,520,000 units (the “Units”) at a price of \$1.15 per share for gross proceeds of \$1,748,000. Each Unit consists of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at a price of \$1.60 for a period for 12 months after closing. The warrants are subject to a 30-day early expiration if the stock closes on the Toronto Stock Exchange, for a period of 30 consecutive trading days, at a price of \$1.90 or greater. A 6% commission that applied to a portion of the financing attributable to authorized agents in the amount of \$89,700 was paid.

For a discussion on “Principal Purposes & Milestones”, please refer to the detailed discussion on the Fire Creek Property.

1.5 Summary of Quarterly Results

The following is a summary of the Company’s financial results for the eight most recently completed quarters:

	Q3 Sep-08	Q2 Jun-08	Q1 Mar-08	Q4 Dec-07	Q3 Sep-07	Q2 Jun-07	Q1 Mar-07	Q4 Dec-06
Total loss	(199,354)	(269,448)	(204,513)	(417,092)	(236,596)	(248,058)	(350,513)	(21,462)
Per share	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.02)	(\$0.01)	(\$0.01)	(\$0.02)	(\$0.00)

Discussion

For a detailed discussion on the nine months ended September 30, 2008, please refer to Section 1.4 - Results of Operations.

1.6 Liquidity

The Company has no revenue generating projects at this time. The Company's historical capital needs have been met by equity subscriptions. As at September 30, 2008, the Company's working capital was \$401,756 (December 31, 2007 - \$3,584,860). The Company currently has sufficient working capital for general and administration expenses until December 2008 but will require additional funding to meet the exploration program for the Fire Creek property. However, this is a forward-looking statement as it involves known and unknown risks, uncertainties and other factors, which could affect the actual results, performance or achievements of the Company and impact on the adequacy of working capital required for the year 2008 expressed by such forward-looking statement. Also, the ability of the Company to continue with recommended exploration programs on its current properties, and/or to successfully acquire and develop additional properties in the resource sector is conditional on its ability to secure financing when required. The Company proposes to meet any additional financing requirements through the exercise of outstanding stock options and warrants, or arranging other equity financing, and/or finalizing a joint venture agreement with a partner(s) who will be able to assume the costs of recommended exploration programs. In light of the continually changing financial markets, there is no assurance that funding by equity subscriptions or finding a joint venture partner will be possible at the times required or desired by the Company.

Currency Risk

Currency risk is the risk to the Company's earnings that arises from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

At September 30, 2008 the Company had the following financial assets and liabilities:

	US Dollars
Cash	\$ 297,808
Marketable securities	\$ 475
Reclamation bonds	\$ 177,300
Overdraft (Brokerage account)	\$ 773,278
Accounts payable	\$ 483,499
Due from related parties	\$ 22,696

At September 30, 2008 US dollar amounts were converted at a rate of \$1.0599 Canadian dollars to \$1.00 US dollar.

Capital risk management

The Company manages its capital to ensure it will be able to continue as a going concern while maximizing the return to shareholders largely through equity sales. These stock issues depend on numerous factors including a positive mineral exploration environment, positive stock market conditions, a company's track record, and the experience of management. The capital structure of the Company consists of shareholder's equity, comprising issued capital, contributed surplus, and deficit.

1.7 Capital Resources

The only capital resources of the Company are its mineral properties with a historical cost of \$20,522,078 and its property and equipment with a net book value of \$35,872.

1.8 Off Balance Sheet Arrangements

There are no off-balance sheet arrangements to which the Company is committed.

1.9 Transactions with Related Parties

The Financial Statements attached hereto provide disclosure on related party transactions for the nine months ended September 30, 2008, with breakdown as follows:

Expense	30-Sep-08	30-Sep-07
Management salaries	\$ 50,887	\$ 63,355
Management fees	27,347	30,018
Consulting fees:		
- Shareholders communication	37,432	40,330
Accounting fees	47,705	45,463
Rent	4,558	5,337
Deferred geological fees	113,002	100,930
Total for the period	\$ 280,931	\$ 285,433

Amounts due to a director of \$39,106 (2007, due from - \$21,562) are non-interest bearing, unsecured, and payable upon demand.

1.10 Third Quarter – 2008:

The third quarter expenditures do not differ significantly from other quarters and were in the normal course of the business.

1.11 Proposed Transactions

None.

1.12 Critical Accounting Estimates

In preparing financial statements, management has to make estimates and assumptions that affect the reported amounts of assets, and liabilities, revenues and expenses. Based on historical experience, current conditions and expert advice, management makes assumptions that are believed to be reasonable under the circumstances. These estimates and assumptions form the basis for judgments about the carrying value of assets and liabilities and reported amounts for revenues and expenses. Different assumptions would result in different estimates and actual results may differ from results based on these estimates. These estimates and assumptions are also affected by management's application of accounting policies. Critical accounting estimates are those that affect the consolidated financial statements materially and involve a significant level of judgment by management.

1.13 Changes in Accounting Policies

Please refer to Note 2 of the Financial Statements.

1.14 Financial and Other Instruments

The carrying value of cash and cash equivalents, marketable securities, accounts receivable, payable and due from (to) related parties approximate their fair values due to the short maturity of those instruments.

1.15 Other

1.15.1 Share Capital

Disclosure of Outstanding Share Capital (November 7, 2008)

	Number	Book Value	Contributed Surplus
Common Shares	25,069,804	\$29,394,189	\$2,087,643

Summary of incentive stock options: (November 7, 2008)

Number of Shares	Expiry Date	Exercise Price
200,000	November 28, 2008	\$0.65
375,000	June 10, 2010	\$1.05
645,000	July 17, 2011	\$2.35
150,000	January 19, 2012	\$2.30
200,000	May 7, 2012	\$2.25
105,000	January 22, 2013	\$2.30
1,100,000	September 17, 2013	\$0.86
2,775,000		

Summary of warrants outstanding: (November 7, 2008)

Number of Shares	Expiry Date	Exercise Price
1,520,000	August 20, 2009	\$1.60

1.15.2 Disclosure Controls and Procedures

The Company has disclosure controls and procedures in place to provide reasonable assurance that any information required to be disclosed by the Company under securities legislation is recorded, processed, summarized and reported within the applicable time periods and to ensure that required information is gathered and communicated to the Company's management so that decisions can be made about timely disclosure of that information. The Company's Chief Executive Officer and Chief Financial Officer evaluated the Company's disclosure controls and procedures for the period ended September 30, 2008. The Board of Directors has adopted the recommendations made by management in the previous quarter and has implemented the procedures to ensure cohesive administration of financial and disclosure matters. Management and the Board have found those disclosure controls and procedures to be adequate for the above purposes.

Internal Controls Over Financial Reporting

The Chief Executive Officer, the Chief Financial Officer and the Audit Committee of the Company are responsible for designing a system of internal controls over financial reporting, or causing them to be designed under their supervision, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with Canadian generally accepted accounting principles. The Chief Executive Officer, the Chief Financial Officer and the Audit Committee have designed and implemented a system of internal controls over financial reporting which they believe is effective for the Company. During the review of the design of the Company's control system over financial reporting it was noted that due to the limited number of staff, there is an inherent weakness in the system of internal controls due to our inability to achieve appropriate segregation of duties. The limited number of staff may also result in identifying weaknesses with respect to accounting for complex and non-routine transactions due to a lack of technical resources, and a lack of controls governing our computer systems and applications within the Company. While management of the Company has put in place certain procedures to mitigate the risk of material misstatement in the Company's financial reporting, it is not possible to provide absolute assurance that this risk can be eliminated.

1.15.4 Subsequent Event

There are no subsequent events to report except for the October 18, 2008 Press Release, which has been disclosed in the Section 1.4 – Fire Creek Exploration Results.

1.15.5 Additional information

Additional information relating to the company is on SEDAR at www.sedar.com.